


Arizona Employer's Handbook

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The Arizona Employers' Handbook (PAU-005) is also available as a pdf document. In order to view and/or print the handbook, you will need to have Adobe Acrobat Reader installed on your hard drive. It is available free of charge and can be downloaded from the  [Adobe Website](#). [Click here](#) to open the pdf version of the handbook (PDF 192KB).

WHO MUST PAY?

In Arizona employers pay unemployment taxes on the first \$7000 in wages paid to each employee in a calendar year. An employer can be an individual, a partnership, a corporation, or any other entity for whom a worker performs services. If you meet one of the following conditions, you are an "employer" required to pay unemployment taxes. You are an employer if you:

1. Pay wages of at least \$1500 during a calendar quarter, or
2. Employ at least one worker for some part of a day in each of 20 different weeks in a calendar year, or
3. Acquire the business or part of the business of an employer subject to unemployment taxes, or
4. Are required to pay Federal Unemployment Tax because you employed individuals in another state(s) for any other reason, or
5. Own or control two or more businesses in Arizona which together meet any of the other conditions described here, or
6. Pay domestic workers at least \$1000 cash wages in a calendar quarter, or
7. Pay agricultural workers at least \$20,000 cash wages in a calendar quarter, or employ at least 10 agricultural workers for some part of a day in each of 20 different weeks in a calendar year, or
8. Are a nonprofit organization exempt under section 501(c)(3) of the Internal Revenue Code, and employ 4 or more workers for some part of a day in each of 20 different weeks in a calendar year, or
9. Voluntarily elect to provide unemployment coverage to your workers even though it is not required.
10. Are a leasing or temporary services business which leases or provides workers to other businesses.
11. An Indian tribe including any subdivision, subsidiary, or business enterprise wholly owned by such Indian tribe.

When you meet one of the above conditions during a calendar year, you must pay taxes on your employee's wages for the entire year. You must continue paying taxes until your account is terminated.

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OBTAINING AN ARIZONA UNEMPLOYMENT TAX ACCOUNT NUMBER

As soon as you begin business in Arizona, contact the [Employer Status Unit](#), the License and Registration Unit of the Department of Revenue, or any of the Tax Audit offices in the Directory. You will be sent an "Arizona Joint Tax Application" (UC-001) to complete and return. The information you provide will be used to determine your liability for unemployment taxes (*You should also contact the Internal Revenue Service to register for a Federal Employer Identification Number.*)

If you are determined liable, you will receive a notice stating the reason you are liable, the date you became liable, your tax rate, and your employer account number. Be sure to include your account number on any further correspondence with the Arizona Department of Economic Security.

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WHAT IS A SUCCESSOR EMPLOYER?

When you acquire all or part of a business which was required to pay unemployment taxes in this state, you are a "successor" for unemployment tax purposes. As a successor, you are immediately liable for unemployment taxes regardless of the amount of wages you pay or the number of workers you employ.

As a successor, you may also take into account wages paid by the former owner in determining the amount of wages on which you must pay taxes during the year in which you acquired the business. For example, if the former owner has paid wages in excess of \$7000 to a worker you continue to employ, you will not have to pay taxes on any additional wages you pay this worker in the year you acquire the business.

Take advantage of the taxable wages reported by the former owner.

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ACQUISITION OF ENTIRE BUSINESS

When you acquire an entire business and continue its operation, you are assigned the tax rate and experience rating account of the former owner. The experience rating account includes the record of wages and taxes previously paid.

Therefore, any unemployment benefits awarded based on wages paid by the former owner may be charged to your account. Additionally, you may be liable for taxes unpaid by the former owner.

When acquiring a business, consider whether any unemployment taxes remain unpaid by the seller.

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ACQUISITION OF A PORTION OF A BUSINESS

If you acquire a PORTION of a business and continue to operate it, you are not automatically assigned the tax rate and experience rating account of the former owner. To apply for a portion of the account and its corresponding tax rate, you must file an "Application & Agreement for Severable Portion Experience Rating Transfer" (UC-247) within 180 days of acquiring the business. The former owner must agree and provide payroll information for the portions of the business acquired and retained. Your account may then be charged for a portion of the unemployment benefits paid to the former owners employees. The application form is available online at our [UI Tax Form](#) link or you may contact the [Experience Rating Unit](#).

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WHO IS AN EMPLOYEE?

The relationship between you and your workers determines whether your workers are employees. An employment relationship exists when a worker performs services for you that are subject to your control, or right to control, whether or not you actually exercise the control.

Generally, an employment relationship exists when the services performed are a regular part of your business. It is presumed that, in order to protect your business interests, you have the right to control the manner in which workers perform services for you.

The services may be performed on a full-time, part-time, temporary, seasonal, or probationary basis. They may be performed on or off your premises or in employees' own homes. Corporate officers, including officers of closely held corporations, are employees of the corporation whether or not they receive wages.

In contrast, "independent contractors" are customarily engaged in an independent trade, occupation, profession, or business. They usually advertise their services, are in a position to realize profit or suffer a loss as a result of their services, and usually have a significant investment in the business. Individuals who have been found not to be employees for federal unemployment tax purposes by the I.R.S., will not be considered employees for state unemployment taxes for the periods determined in the I.R.S. writing.

If you have any questions about whether your workers are employees, please contact any of the Tax Audit Offices listed in our [Field Office Directory](#).

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WHAT IF MY EMPLOYEES WORK IN MORE THAN ONE STATE?

If you have employees working in Arizona and one or more other states, the following guidelines will help you correctly report their wages and pay unemployment taxes.

1. If an employee works **only** in Arizona, report the wages and pay taxes to Arizona, whether or not you are located in Arizona.
2. If an employee works **only** in another state, report the wages and pay taxes to that other state, even if you are located in Arizona.
3. If an employee works **primarily** in Arizona and only **occasionally** in another state, report the wages and pay taxes to Arizona whether or not you are located in Arizona.
4. If an employee works equally in two or more states, report the wages and pay taxes to the state that contains the employee's base of operations, or the state from which the services are directed and controlled (*usually the state in which you are located*).

If you have questions about properly reporting wages and paying unemployment taxes, please contact the [Employer Status Unit](#) or contact any of the Tax Audit Offices listed in our [Field Office Directory](#).

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WHAT IS EXEMPT EMPLOYMENT?

Employees are included under the unemployment insurance law, unless their services are specifically excluded. If a service is excluded, it is not counted in determining your liability for taxes, and payments for those services should not be included on your quarterly wage reports. You should not report payments for the following:

1. Insurance, real estate, cemetery, and securities salespersons paid solely by commission.
2. A sole proprietor's spouse, parents, or children under 21 years of age. *(In a partnership, the relationship must extend to both/all partners. For example, parents of brothers in a partnership are exempt when the partnership consists only of those brothers; parents of a partner in other partnerships are not exempt.)*
3. Students in a academic work experience program performing services as part of the school's academic program.
4. Income tax preparers paid solely by commission.
5. Direct sellers of consumer goods, paid solely by commission, who solicit orders or make sales in person in customers' homes.
6. Students in regular attendance at the educational institution that employs them, or spouses of students, if the spouses are employed as part of a financial assistance program for the students.
7. Individuals under 18 years of age who deliver or distribute newspapers or shopping news to customers.
8. Patients of a hospital performing services for the hospital.
9. Student nurses performing services for a hospital or a nurse's training school; or intern in the employ of a hospital.
10. Individuals hired for a one-time, short term job, generally for less than 13 days in a calendar quarter, when there is no intent for a continuing employment relationship.
11. Service performed for a non-profit organization if payment for the service is less than \$50 in a calendar quarter.
12. Other services described in ARS sections 23-613.01 and 23-617.

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WHAT WAGES MUST BE REPORTED?

All payments to your employees for services are wages and must be reported *(before deductions)* on your quarterly wage report, unless specifically excluded by law. You must report salaries, commissions, bonuses, fees, fringe benefits, sick pay, deferred compensation, tips reported to you by your employees, and the cash value of payments in any medium other than cash *(such as gifts)*. Employer contributions *(to the extent elected by the employee)* to 401(k) plans are also wages. **Be aware of types of payments for which you do not have to pay taxes.**

The following payments, excluded by law, should **not** be reported:

1. Payments you make to a plan for insurance *(or payments from a plan to employees or dependents)* for workers compensation, medical or hospitalization expenses, or death.
2. A domestic employee's share of FICA which you pay.
3. Long term disability *(after 6 months)*.

4. Payments made to a retired employee under certain retirement plans, or payments made for an employee to a retirement plan.
5. Moving expenses reimbursed to employees where there is an allowable corresponding deduction under the Internal Revenue Code.
6. Payments you make to a group legal services plan, or the value of legal services for the employee or his dependents.
7. Payments you make for dependent care assistance (*such as child care*) to the extent excludable from the employee's federal income tax.
8. Meals and lodging provided for the convenience of the employer.
9. Survivor benefits.
10. Scholarships and fellowship grants provided by non-profit or governmental employers to the extent allowed under the Internal Revenue Code.
11. Tuition reduction to employees of educational institutions.
12. Services provided to employees at no additional cost such as free stand-by flights to airline employees.
13. Employee discounts up to 20%.
14. Working condition fringe benefits which, if provided by the worker, would be deductible business expenses (*e.g. the value of a company car used for business purposes*).
15. Fringe benefits of minimal or insignificant value such as complementary coffee and tea you provide for your employees.
16. Athletic facilities provided for workers on your premises.
17. Payments for agricultural labor in any medium other than cash.
18. Payments for services not in the course of your trade or business in any medium other than cash.
19. Amounts excluded from the definition of wages for purposes of the Federal Unemployment Tax Act (FUTA).

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HOW MUCH ARE UNEMPLOYMENT TAXES?

(The following does not apply to certain nonprofit and governmental employers and Indian tribes who have chosen the [reimbursement](#) payment option).

Arizona unemployment tax rates range from a minimum of 0.02% to a maximum of 5.40% paid on the first \$7,000 in wages paid to each employee in a calendar year. *(An additional 2.0 % surtax may be added if benefits paid as a result of participation in the Shared Work program exceed taxes.)* The actual taxes you pay are calculated by multiplying your quarterly taxable wages by your tax rate.

New employers (*other than successors*) are assigned a tax rate of 2.00% for a minimum of 2 calendar years. After that, you may be eligible for a higher or lower tax rate depending on:

1. The amount of taxes you have paid.
2. The amount of unemployment benefits paid to your former employees and charged to you.
3. The average size of your annual taxable payroll.
4. The overall solvency of the unemployment trust fund.

These four factors are used to compute your tax rate using a "reserve ratio" system - basically a cost-accounting system.

The taxes you have paid minus the amount of benefits attributable to your business are divided by your average annual taxable payroll to produce your reserve ratio. The higher your reserve ratio, the lower your tax rate.

$$\text{Reserve Ratio} = \frac{\text{Reserve Balance (Taxes Paid minus benefits charged)}}{\text{Average annual taxable payroll}}$$

This ratio is compared to a table in the law which prescribes the rates assigned to each ratio. The law provides that these rates may be increased or decreased depending on the solvency of the unemployment trust fund. High rates of unemployment in the state can produce higher tax rates in subsequent years, and conversely, low unemployment can produce lower tax rates.

In January of each year, you will receive a "Determination of Unemployment Tax Rate" (UC-603) advising you of your tax rate for that calendar year. This notice contains all the factors used in calculating your reserve ratio and tax rate. If you disagree with the rate assigned or any of the calculations, you may appeal by following the instructions on the notice.

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VOLUNTARY PAYMENTS

Included with your rate notice is information about voluntary payments. It explains how to calculate the amount you can pay to improve your reserve ratio and lower your tax rate. By comparing the voluntary payment amount with your potential reduction in taxes, you can determine if you will save money by making a voluntary payment.

Each year consider a voluntary payment as a way to reduce your taxes.

Voluntary payments must be made by January 31 in order to lower your rate for that calendar year.

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REIMBURSEMENT PAYMENT OPTION

Nonprofit organizations, exempt from federal unemployment taxes under Section 501(c)(3) of the Internal Revenue Code, governmental entities and Indian tribes are offered an alternative method of paying state unemployment taxes--the reimbursement payment option--a form of "self-insurance." In lieu of paying taxes on a quarterly basis, you pay your proportionate share of the amount of benefits paid to your former workers.

You may choose the reimbursement payment option within 30 days of the date you are notified of your liability as an employer by completing and returning the form enclosed with the notification. If you do not return the form, your account will be established on a tax-rated basis. Your choice remains in effect for at least three calendar years and may be changed by filing a written application at least 30 days prior to the beginning of the fourth or any subsequent year.

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WHAT FACTORS SHOULD BE CONSIDERED BEFORE CHOOSING THE REIMBURSEMENT PAYMENT OPTION?

1. This option is generally more advantageous for employers with 100 or more employees and stable employment; the tax-rated basis is usually more advantageous for small employers and those with high employee turnover.
2. Reimbursement payments will vary depending on the number of former employees who are receiving unemployment benefits. With this method, it is difficult to estimate costs. In contrast, tax-rated employers can more accurately estimate unemployment costs because their tax rates remain constant for a complete calendar year.
3. Employers who have elected the reimbursement payment option may not be relieved of "charges" (payments) for any reason. This includes cases where former employees are paid benefits after a disqualification for quitting or discharge, or in cases where they are paid benefits after subsequent employment and certain other circumstances. Although tax-rated employers may be relieved of charges for specific individuals, the actual cost of the benefits paid to those individuals is shared by all tax-rated employers.

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HOW DOES THE REIMBURSEMENT PAYMENT OPTION WORK?

1. Each quarter you must complete and submit an "Unemployment Tax and Wage Report" (UC-018) listing all employees' names, Social Security numbers, and total gross wages. No payment is included with the report.
2. You will be notified when former employees file for benefits and will be provided the opportunity to protest the employee's receipt of benefits, based on the reason for separation, if you were the claimant's last employer.
3. Whenever benefits are paid to former employees in a calendar quarter, you will receive a "Benefit Charge Notice" (UC-602) during the first month of the following quarter. A statement will accompany the notice specifying the amount due. That amount will be your proportionate share of payments made that quarter, plus half of your share of extended benefits if you are a nonprofit employer, and the full amount of your share of extended benefits if you are a governmental employer or Indian tribe. Your payment is due on or before the last day of the second month following the end of the quarter in which the benefit claims were paid.

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PAYMENT OPTION FOR INDIAN TRIBES

Payment is due on or before the last day of the second month following the end of the quarter in which the benefit claims were paid. Indian tribes that fail to make payments, including assessments of interest and penalties, within 90 days of notice of the amounts due lose the option to make payments in lieu of taxes for the following tax year, unless full payment is made before the taxes for the next tax year are computed.

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RESPONSIBILITIES

Failure to receive an "Unemployment Tax and Wage Report" (UC-018) does not relieve you of the responsibility for filing a timely report.

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FILING QUARTERLY REPORTS

Click [here](#) for information regarding online filing of your quarterly Unemployment Insurance Tax and Wage Report (UC-018).

As an employer, you are required to file wage reports and pay unemployment taxes on a quarterly basis whether or not wages have been paid in the quarter. You may submit reports by utilizing forms mailed to you by the department each quarter, although failure to receive a report does not relieve you of the responsibility of filing a report. You are encouraged to submit quarterly wage reports using magnetic media. Diskette and cartridge media are accepted in MMREF-1 (Magnetic Media Reporting and Electronic Filing-1). For more information regarding magnetic media, you may access the "Arizona Magnetic Media Reporting" publication online through our [Employer Publications](#) link. For additional information about Magnetic Media Reporting, please contact our Customer Support Unit at 602-248-9354 extension 1419.

Reports are due as follows:

For Wages Paid During	Calendar Qtr. Ends	Report Due By
JAN, FEB, MAR	March 31	April 30
APR, MAY, JUN	June 30	July 31
JUL, AUG, SEP	September 30	October 31
OCT, NOV, DEC	December 31	January 31

Keep the department notified of your current address.

If quarterly reports and payments are filed late, penalties and interest are assessed. The penalty is 0.1% of total wages paid in the quarter; the minimum penalty is \$35 and the maximum is \$200. Interest on unpaid taxes accrues at 1% per month, or portion of a month, that the payment is late. You can avoid the penalty charge by filing your reports on time, even if you are unable to pay the tax at the time of filing. However, if you cannot pay the tax due, contact the [Collections Unit](#) to make payment arrangements. The department may file liens, levy on property, and otherwise enforce collection of overdue amounts.

In preparing your reports, list employees' names in alphabetical order or numerically by Social Security number and provide the total amount paid to each employee in the quarter. Wages must be reported in the quarter in which they are **paid**. For example if a pay period ends September 30, but wages are not paid until October 1, report the wages on your fourth quarter wage report, covering the months October through December.

If more than one page is required to report all of your employees, wage listings that are computer generated or printed on plain white paper are acceptable provided the employee wage information and format are the same as the Wage Listing, Part B of form UC-018. The "Continuation Form" (UC-020) is available online at our [UI Tax Form](#) link. Penalties are assessed for incomplete reports, so be sure that each page contains the following information:

1. Employer name
2. Employer account number
3. Calendar quarter and year for which report is being filed
4. Employees' Social Security numbers and names (*last name first*)
5. Total amount of wages paid to each employee during the quarter
6. Page total amount of wages paid to all employees (*listed on the page*) during the quarter.

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PROPERLY COMPLETING THE REPORTS

Instructions for completing the "Unemployment Tax and Wage Report" (UC-018) can be found on the page 3-Reverse of the form. Specifications for using a facsimile of the "Wage Listing Continuation" (UC-020) can be found on page 2-Reverse of the "Unemployment Tax and Wage Report" (UC-018).

Complete the monthly employment data reported on the quarterly "Unemployment Tax and Wage Report" (UC-018) in Section A. Enter the count of all your full-time and part-time employees who performed services during the payroll period that includes the twelfth of the month. If you do not have any employees in the payroll period, enter zero.

If you have questions regarding the completion of either form, or you need copies of the forms and template, contact the [Employer Accounting Unit](#).

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MAKING CORRECTIONS TO REPORTS

If you find you have submitted an incorrect report, you may submit an adjustment to the report. Clearly identify the adjustment on a copy of the original report and submit it with an explanation of the reason for the adjustment. You may also obtain an "Adjustment Form" (UC-522) from the Employer Accounting Unit at (602) 248-9354. This form is available online at our [UI Tax Form](#) link.

Adjustments must be made to the quarterly report in which the error occurred; do not make an adjustment for a prior quarter on a current quarter's report. Do not attempt to correct a worker's overreported wages by including a negative amount on a subsequent wage report--these amounts are read by the computer as increases to wages. This may result in an overpayment of unemployment benefits or additional taxes due.

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PAYING TAXES

This section does not apply to nonprofit and governmental employers and Indian tribes who have chosen the reimbursement payment option.

Your unemployment tax payment is due with your report and is used solely for the payment of unemployment benefits. **It cannot be withheld from employees' wages.** Be sure to compute the amount of taxable wages accurately following the instructions provided on the form. Taxable wages are the first \$7000 paid to each worker in a calendar year. Check your calculations carefully and watch the decimal point in the tax rate when figuring the amount of taxes to pay.

You must report total wages paid to all employees in the quarter, but pay taxes on only the first \$7000 paid to each worker in the calendar year. Subtract "excess wages" (*amounts over \$7000 paid to each worker*) from total wages, to determine taxable wages. Remember, if you are a successor employer, you may take into account wages paid by the former owner in the same calendar year, to compute **your** taxable wages.

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REPORTING CHANGES

When any change in your business occurs, it is your responsibility to notify the department promptly. A delay could result in additional costs to you later. Be sure to report changes such as:

1. Selling your business
2. Discontinuing your business
3. Changing your business name
4. Changing ownership of your business
5. Incorporating
6. Changing your address

7. Acquiring another business, or
8. Any other change.

A "Report of Changes" (UC018 - Page 3) is mailed with your quarterly "Unemployment Tax and Wage Report" (UC-018) for your convenience in reporting changes. You may also report a change by contacting the [Employer Status Unit](#) or by completing and submitting the "CHNG Form" which is available online at our [UI Tax Form](#) link. Telephone contact should be followed up with a written confirmation to the Employer Status Unit.

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KEEPING RECORDS

Arizona regulations require the following records be kept for the most recent four calendar years by **all** employing units whether or not they have been determined liable to pay unemployment taxes:

1. Check stubs and cancelled checks for all payments
2. Cash receipts and disbursement records
3. Payroll journal
4. General journal and general ledger
5. Copies of tax reports filed with all Federal and State agencies
6. Copies of W-2(s) and W-3(s)
7. Other accounting records as may be required
8. For each payroll period, the
 - o beginning and ending dates of each pay period
 - o total amount of remuneration paid for all services, whether paid in cash, by check, or in any other manner, and the date of each such payment
 - o date in each week on which the largest number of individuals worked, and the number of individuals who worked on that day
9. For each worker, the
 - o first and last name
 - o Social Security number
 - o date hired, rehired, or returned to work
 - o date employment ended and the reason(s) for separation from work
 - o amount of remuneration paid in each calendar quarter
 - o amount of remuneration paid each pay period, including the value of any remuneration in a form other than cash
 - o amount and date of any special payment, such as a bonus, gift, or prize
 - o place in which services were performed

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PROVIDING INFORMATION TO YOUR EMPLOYEES

Arizona law requires that you post in your place of business a "Notice to Employees" (POU-003) which provides information about the Unemployment Insurance program. You are also required to provide a printed statement containing information about filing for unemployment benefits

when one of your employees becomes unemployed. A pamphlet entitled, *"A Guide to Arizona Unemployment Insurance Benefits"* is available online, [click here](#) to go to our Tax Forms and Employee Pamphlets listing.

The poster and a copy of the pamphlet are mailed to you when you become liable for unemployment taxes. You can obtain additional copies of the poster and pamphlet by contacting the [Employer Status Unit](#) or any of the Tax Audit Offices listed in our [Field Office Directory](#). The poster is available online, [click here](#) to go to our Workplace Poster listing.

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FEDERAL UNEMPLOYMENT TAX CREDIT

Most employers who pay Arizona state unemployment tax are required to pay the Federal Unemployment Tax (FUTA). The annual FUTA tax you pay is used to fund the administrative costs of the Unemployment Insurance program while your Arizona state unemployment tax is used **solely** for the payment of benefits to unemployed workers.

The FUTA tax is currently 6.2% on the first \$7000 in wages paid to each worker in a calendar year.

When you pay your state taxes on time, you receive a tax credit of 5.4% to reduce your FUTA tax regardless of your Arizona unemployment tax rate. The credit is equal to your actual tax rate, plus the difference between that percent and 5.4%. This means that Arizona employers who pay their state taxes timely pay a net federal tax of 0.8%. For example:

If your Arizona tax rate is 2.7%, you will receive a tax credit of 5.4% to reduce the federal tax even though your tax rate is less than 5.4%

Federal Tax Rate	6.2%	
Credit	- 5.4%	(Credit for state tax 2.7% plus an additional credit of 2.7%)
Net Federal Tax	0.8%	

In order to receive the full federal tax credit, you must pay state taxes on time. If you pay your state taxes late, you will receive only 90% of the allowable credit.

**Pay state unemployment taxes on time to receive full credit
against your Federal Unemployment Tax.**

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AUDITS

The department conducts routine audits of Arizona employers on a random basis, and investigates issues regarding the status of individuals as employees and the designation of payments as wages, to ensure proper payment of taxes. You may be contacted by an unemployment insurance tax auditor to schedule an appointment to examine your financial records. All DES tax auditors carry picture ID cards for identification.

Audits are usually conducted at the employer's business; however, at your request, the audit may be conducted at an accountant's office, provided that all necessary records are available there. Records which are located out of state will be required to be made available to the tax auditor at the Arizona business headquarters.

Before examining the records, the auditor will interview the owner or representative of the business. The purpose of the interview is to determine the nature of the business, the type of services being performed, and to verify the ownership of the business. This pre-audit interview also helps the tax auditor to better understand the financial records which he or she will be examining.

Financial records are generally examined for the most recently completed calendar year. For instance, if the current date is July 15, 1999, the audit will cover calendar year 1998. Records beyond the audit year may be required if discrepancies in reporting are found. Records for the previous three calendar years as well as the current year may be needed and should be available.

Keep complete and accurate records.

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TERMINATION OF LIABILITY


After you become liable for unemployment taxes, your liability continues until it is terminated. Your account may be terminated if you make a written request between January 1 and March 31, and you did not meet any of the applicable conditions that require payment of unemployment taxes in the prior calendar year. Your account will also be terminated if you transfer your entire business to a successor employer. Termination of your account does not relieve you of liability for unpaid taxes.

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ARIZONA JOB TRAINING TAX

Effective January 1, 2001, a 0.10% Job Training Tax is imposed on taxable wages. The Job Training Tax is not part of an employer's experience rating or included in the Unemployment Tax rate. Reporting and paying job training taxes will mirror the unemployment insurance tax process. Employers began paying the job training tax with their unemployment taxes at the end of the first quarter of 2001. Form UC-018, Unemployment Tax and Wage Report, includes an item titled "Job Training Tax" and instructions on how to calculate and pay the job training tax. Certain employer groups are exempt from the liability to pay the Job Training Tax. These groups are:

- Eligible employers choosing the Reimbursement Option
- Employers with a positive reserve ratio of at least 13 percent
- Employers with a positive reserve ratio of at least 12 percent
- Employers assigned a tax rate of 2.00% or 2.70%
- Employers with a negative reserve ratio

Employers included in any one of these exempt groups DO NOT compute or pay the Job Training Tax. The Job Training Tax funds the Arizona Job Training Program administered by the Arizona Department of Commerce. The Arizona Job Training Program supports the design and delivery of training plans that meet your unique industry standards and challenges. The intention of the Arizona Job Training Program is to create quality employment opportunities, increase skill levels and raise the per capita income of Arizona residents. The mission of the Arizona Job Training Program is to promote economic prosperity by providing qualified businesses with the resources to train and develop Arizona's workforce. Questions about the Arizona Job Training Program can be directed to Arizona Department of Commerce, 3800 North Central Avenue, Suite 1650, Phoenix, Arizona 85012-1908, at (602) 280-8133 or (outside the Phoenix metro area) (888) 677-8177 or to their website at  www.azcommerce.com

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ARIZONA DEPARTMENT OF REVENUE WITHHOLDING TAX

GENERAL INFORMATION

All wages, salaries, bonuses or other compensation paid for services performed in Arizona are subject to state income tax withholding, with the following exceptions:

1. Military pay of personnel stationed out of Arizona (pay remains subject to state income tax, however).
2. Wages or salary paid to an employee of a common carrier who is a nonresident of Arizona and who regularly performs services within and without the state.
3. Wages paid for domestic service in a private home.
4. Wages paid for casual labor (not conducted in the course of the employer's trade or business).
5. Wages paid to part-time or seasonal agricultural workers (Note: Wages paid to regular farm employees or to part-time, seasonal or regular employees whose principal job is operating mechanical equipment are subject to withholding.)
6. Wages paid to nonresidents engaged in any phase of motion picture production in Arizona if the Department determines that the nonresident employee would be allowed a credit for taxes paid to their state of residency. (Note: The employer must file a withholding exemption application with the Arizona Department of Revenue and receive approval from the department.)
7. Wages paid to nonresident employees who are residents of another state and are allowed a tax credit for income taxes paid to their state of residency.
8. Individuals who receive certain types of pension income (including military retirement) may request withholding of Arizona state income taxes from their pensions.

WITHHOLDING RATE

The rate of withholding for state income tax purposes is:

1. Employees whose annual compensation before deductions is less than \$15,000 may elect to have withheld for state income tax an amount equal to 10%, 19%, 23%, 25%, 31% or 37% of the amount withheld for federal income tax; if no rate election is made, 10% is withheld.
2. Employees whose annual compensation before deductions is \$15,000 or more may elect to have withheld for state income tax an amount equal to 19%, 23%, 25%, 31% or 37% of the amount withheld for federal income tax; if no rate election is made, 19% is withheld.
3. Employees who had no state income tax liability for the prior taxable year and expect to have none for the current taxable year may elect a zero percent (0%) state income tax withholding rate.
4. Employees may request a rate change by completing an Arizona Form A-4.

EMPLOYER REPORTING REQUIREMENTS

An employer must obtain a withholding registration certificate from the Department of Revenue before hiring employees. This certificate provides the employer with an identification account number which is used to credit payment of withholding taxes to the department. There is no fee for this certificate. Applications are available by calling Licensing and Registration, 602-542-4576 or 800-634-6494, toll-free in Arizona.

Arizona law requires an employer, at the beginning of each new quarter, to compute its average Arizona withholding tax liability for the preceding four calendar quarters. This average is computed by adding the withholding tax liabilities for the preceding four quarters and dividing the total by four.

If an employer's average is \$1,500 or less per quarter, withholding taxes must be paid on a quarterly basis. In addition, the quarterly return (form A1-QRT) must be submitted. (Both the quarterly return and payment are due on or before January 31, April 30, July 31 and October 31 for the preceding quarter.)

For employers whose average withholding is more than \$1,500 per quarter, payments are due on the same schedule as the federal withholding, as the A1-QRT return is still required quarterly.

Payment of all withholding tax should be mailed to: Arizona Department of Revenue, P.O. Box 29009, Phoenix, AZ 85038- 9009. Each payment must be accompanied by an Arizona Form A1-WP. Copies of this form are available by calling the Department of Revenue's Tax Form hotline 602-542-4260.

FAILURE TO WITHHOLD

By law, employers must withhold state income taxes from their employee's wages unless they are specifically exempted. Failure to remit state withholding taxes may constitute a felony under ARS § 43-416.

In addition, the following penalties may be imposed on any taxes due:

1. A late-filing penalty of 5% per month (or fraction thereof up to a maximum of 25% of the total tax due. For taxable periods beginning after December 31, 2000, the late filing penalty is four and one-half percent per month.
2. A late-payment penalty of 10% of the amount due (maximum penalty between late filing and payment penalties is 25%). For taxable periods beginning after December 31, 2000, the late payment penalty is one-half of one percent per month.
3. A \$500 penalty for failure to file an information return, or filing an incomplete information return. 4. A \$1,000 penalty for filing a false or fraudulent return for anyone who makes, prepares, renders, signs or verifies a false or fraudulent return.

YEAR-END RECONCILIATION

At the end of the year, the employer must prepare for each employee a statement showing:

1. The total wages paid to that employee for that year, and
2. The total amount of federal and state income taxes withheld.

Either the federal W-2 form or 1099-R form may be used.

Two copies of the completed form must be given to the employee on or before January 30th of each year. In addition the employer must keep one copy for his/her records and file one copy with the annual withholding report Form A1-R, that must be filed with the Arizona Department of Revenue before February 28th each year. Attached to this report must be copies of all wage and withholding statements.

SPECIAL INSTRUCTIONS

In Arizona, a Native American Indian is exempt from paying state income taxes if he/she lives, works, and receives income on the same reservation where he/she is an enrolled member.

The burden of proof for not withholding state income taxes is on the employer. Employers must have on file a completed Arizona Form WECI (Withholding Exemption Certificate - Indian) - signed by the employee claiming an exemption - and submit a copy of this form with their quarterly state withholding return. For copies of this form, call 602-542-4260.

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DIVISION OF CHILD SUPPORT ENFORCEMENT - EMPLOYER REPORTING

For detailed information regarding requirements and guidelines for the Arizona New Hire Reporting Program, please select the following link to the

 [**Arizona New Hire Reporting Center**](#)

SUPPORT PAYMENT CLEARINGHOUSE - Effective October 1, 1998 each state was required, by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to establish a centralized State Collections and Disbursement Unit for the collection and disbursement of all child support payments. In Arizona, this unit is known as the Support Payment Clearinghouse. This allows employers to have one location within each state to which they must remit payment for all income withholding orders. These payments must be remitted to:

**Clearinghouse
P.O. Box 52107
Phoenix, Arizona 85072-2107**

The above address is to be used only for cases for which employers receive an income withholding order or court order with this address.

The centralized, privatized approach provides enhanced customer service to parents, and especially to employers by mandating one point of receipt for all support payments.

**EMPLOYERS CAN MAKE A BIG DIFFERENCE FOR EMPLOYEES WHO PAY CHILD
SUPPORT**

Three simple steps are all it takes for employers to make sure that the support payments they withhold from a check help their employees. Your employees depend on you to deduct the court order amount. Your employees depend on you to send that payment so that they get credit. Here are three easy steps to help you make a big difference in their lives.

First, include your employees' name and ATLAS case number on your remittance. Without this information your employees may not get credit for a payment that you made on their behalf.

Second, include the pay period that you deducted the payment from. We don't need to know when the check was issued or when the payment to the Support Payment clearinghouse was issued. We need to know what pay period this payment came from. The employees receive credit for the pay period not the date of the check.

Third, pay the court ordered monthly amount. If you pay your employees on a weekly or every other week basis this does not satisfy the monthly court ordered amount. Just like the insurance premiums that you deduct, support is based on a monthly amount. If you divide the annual support by 52 weeks or 26 weeks, your payments may put your employees in an "arrear" status. This could cause interest to accrue on their record. This could make their pay record appear to be delinquent. This could affect their credit rating.

Your employees work hard for you. Help us help your employees. If you have any questions, please do not hesitate to contact the Division of Child Support Enforcement, Customer Service at 602-252-4045 or 1-800-882-4151.